

November 2013 Change to the 457 Deferred Compensation Plan

Question and Answers

1. Why are changes being made to the 457 investments?

The City has been reviewing the vendor contracts on all of the retirement plans including the 457 Deferred Compensation Plan. This is a best practice for employers. In the course of this review the City wanted to ensure participants were being charged the lowest fees possible, to simplify the investments, and to offer more choices (investment classes) than ICMA-RC is currently offering.

Participants pay two types of fees while participating in the 457 Plan. Each fund manager charges an investment management fee and ICMA-RC charges an administrative fee. Currently, these fees are bundled and are not readily apparent. The fees do not appear on participant statements because they are deducted from earnings before the earnings are allocated to participant's balances. The fees are currently asset based – i.e., participants are charged a percentage of their assets in each investment fund. In some instances, some investment funds are paying a portion of their fees to ICMA-RC.

The City was able to negotiate a new fee structure for the ICMA-RC administrative fee. ICMA-RC will receive a flat administrative fee of \$73.00 annually. The \$73 annual fee is deducted quarterly ($\$18.25 * 4 = \73). The \$18.25 fee will appear on the quarterly statements. This administrative fee is not new – it has been restructured and will be cheaper for most employees.

Index funds were considered because they tend to have lower fees than comparable actively managed funds. Many of the funds on the present ICMA-RC platform are actively managed funds. Index funds earnings tend to be steadier and suffer lesser effects of market swings than actively managed funds. By investing in index funds, participants will be more focused on assets class than on the fund managers.

2. Does the City receive any money or financial advantage in making changes to the 457 investment platform?

The City receives no money or financial advantage in sponsoring the 457 Plan or make changes to the investments. The City will continue to pay the cost of staff involved with the administration of the 457 Plan.

3. Why did the City choose mostly Vanguard index funds?

Vanguard index funds charge some of the lowest fund management fees.

- 4. Why was the Vanguard 500 Index Signal chosen instead of another Vanguard 500 fund that has been around for a long time? This Signal fund has a very short history compared to Vanguard's other 500 fund.**

Vanguard manages its S&P 500 funds in the same manner. The (institutional) version selected had the lowest fees, and the same strategies as the older (retail) versions with higher fees.

- 5. Will there be fees or penalties will be charged to transition our assets in current investment platform to new investment platform?**

ICMA-RC has indicated there will not be fees or penalties. In order to prevent participants in the VT Fidelity Diversified International Fund from being charged fees or penalties, their assets in that fund will be transitioned to the new platform in December. ICMA-RC has indicated this will take place around December 15 -18.

- 6. Will there be fewer choices?**

Investment professionals have demonstrated around 90% of performance is attributable to asset class selection and very little is attributable to manager selection. Taking this to heart, the platform was created to focus on the asset class by use of the index funds. We are adding choices (asset classes).

- 7. Why is the City reducing my chances to keep earning the high returns I am earning in my current funds.**

There is no guarantee that past outperformers will become future outperformers. If there are funds that you want to keep, you may want to consider participating in the ICMA-RC Payroll Deduct Roth IRA. The Payroll Deduct Roth IRA is not changing the investment platform and has many of the funds on the current 457 platform. However, the Payroll Deduct Roth IRA has different tax advantages from the 457 Plan. The 457 Plan provides the tax advantage up front through pre-tax payroll deducted contributions. Contributions to the Payroll Deduct Roth are contributed on an after-tax basis. Earnings will be tax-free if they are withdrawn accepts after-tax contributions but provides tax-free advantages on earnings advantages when assets are withdrawn if the participants satisfies the plan rules.

- 8. Can I roll my 457 Plan account into the IRA of my choice?**

Federal tax law allows participants in 457 plans to withdraw funds when they leave employment with the sponsoring employer. There is no provision to allow participants to roll money to another plan while still employed with that employer. As the plan sponsor, the City ensures the plan complies with federal law in order for all employees to enjoy the tax advantages offered by the 457 plan.

- 9. Will the investments (the selection of mutual funds) ever change? How can I suggest changes?**

Monitoring the fund line-ups is an ongoing process. Investments will be reviewed annually and it is anticipated that asset classes will be added. You email suggestions to the Retirement Administrator, Steven Bland at steven.bland@alexandriava.gov.

10. Why weren't employees involved in the change process?

In reviewing the investments, the City considered feedback from employees who are currently involved with retirement, investments, and who are participants in the 457 plan. The City also considered input from an outside investment consultant as well as staff who have investment designations and plan administration certifications.

11. How can I be more involved in ICMA-RC planning?

The City solicits input in retirement related issues from the retirement boards. You might want to consider becoming a representative on the Supplemental Retirement Plan Board or the Firefighters and Police Officers Retirement Plan Board.